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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Productivity Gains Are . . .

Hiding among the many gloomy statistics released these days by Washington is one very welcome bit of good news. Productivity in the private business sector increased at a seasonally adjusted annual rate of 2.9 per cent during the April–June period compared with the previous quarter—the largest gain in over a year. This productivity improvement will have a favorable impact on some of the other economic indicators, including the rate of inflation and consumers' purchasing power. Also, by easing cost pressures on some companies' balance sheets, it may have already helped arrest the decline in corporate profits.

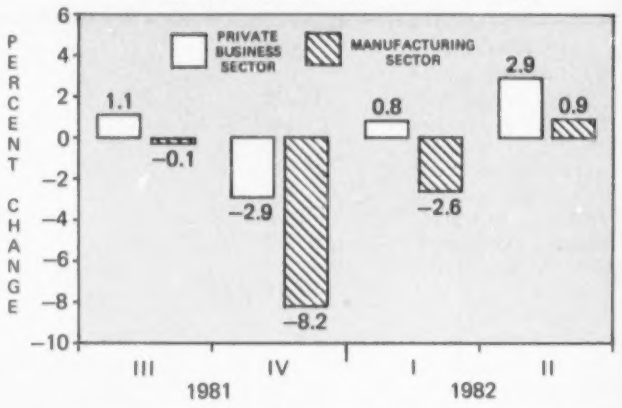
The productivity increase was aided by the first quarterly gain in output for the private economy since the third quarter of 1981. At the same time, the number of hours worked declined. By contrast in the first quarter, productivity rose 0.8 per cent while both measures declined. The second quarter turnaround in productivity was particularly noticeable in the manufacturing sector (see chart), where recent declines had been especially steep. Output per hour rose at a 0.9 per cent annual rate in the second quarter— compared with declines of 2.6 per cent in the first quarter of 1982 and 8.2 per cent in the final quarter of last year. Unfortunately, this turnaround did not stem from an expansion of factory output, but rather, from drastic reductions in payrolls which outpaced the five per cent drop in production.

. . . The Key To Less Inflation . . .

The improvement in productivity will help reverse the 15-year rise in the underlying or "core" rate of inflation (the annual rise in labor and capital costs). Core inflation had already slowed to an 8.9 per cent rate last year from a 9.3 per cent pace in 1980 as business tax cuts slowed the rise in capital costs. The second quarter's rise in productivity sets the stage for further reductions in the inflation rate, thanks to the easing of labor cost pressures that accompanied it.

Even now, there has been a dramatic deceleration in wage and salary increases. Hourly compensation (including benefits) rose at an annual rate of 7.1 per cent in the second quarter of 1982—the smallest rise in four years. One of the major contributors to this was the reduction in wage gains received by organized labor.

PRODUCTIVITY
(QUARTERLY CHANGES AT ANNUAL RATES)



This development began close to two years ago, as the serious slump started to affect many older, "smokestack" industries. In an effort to preserve jobs, labor began to accept lower pay raises in some industries, while in others, they agreed to wage freezes—and even pay cuts. By the beginning of 1982, this trend spread to virtually all industries, including food processing, textiles and services. As a result, major collective bargaining agreements negotiated since January 1 provided only slightly more than cost-of-living adjustments.

Averaging only three per cent in the first contract year, these wage increases compare with an average of 7.7 per cent when the same parties negotiated previously—two to three years ago. What is more, nearly three-fifths of the 1.9 million workers covered by these settlements received no specified wage increases while some will see their pay decrease during the life of 1982's agreements. More than 90 per cent of those workers who did not get an increase were in the automotive and trucking industries. The remaining workers were in the rubber, farm machinery, steel and food processing industries. However, nearly all are scheduled to

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receive some cost-of-living increases. When this slowdown in wage raises is combined with the expansion in productivity, the cost of labor per unit of output rose at a seasonally adjusted 4.1 per cent annual rate in the second quarter, the slowest since the third quarter of 1977.

. . . And More Profits . . .

The rise in productivity and the slowdown in the growth of unit labor costs may have helped stop the decline in profits of many companies. By easing labor cost pressures, corporate earnings regained some ground in the second quarter from the deeply depressed first quarter level. Estimates by this Bank indicate that total pretax profits inched up by five per cent, quarter-over-quarter, increasing by some $8 billion at an annual rate.

Although this nowhere near offsets the plunge of $62 billion at annual rates posted in the previous two quarters, it is nevertheless a welcome turnaround considering the continued weakness in final sales, the high cost of borrowing and the utilization of only slightly more than two-thirds of factory capacity. However, despite this upturn, the level of profits is some 20 per cent lower than it was during the comparable period a year ago and is no higher than it was five years ago. When the impact of inflation is excluded, "real" operating profits (excluding inventories and depreciation) have been squeezed back to the levels of the early sixties.

As the economy recovers, wage gains may accelerate

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/28/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.220	– 2.247	+ 9.533
Loans to Depository Inst.	.548	– .047	– 1.430
Float	1.708	– .303	– 1.386
Total Reserve Bank Credit	152.533	– 2.945	+ 5.360
Treasury Deposits with Federal Reserve Banks	3.358	+ .177	+ .295
Currency Outside Banks	130.879	– 2.616	+ 7.508
Member Bank Reserves:			
Required	40.056	– .303	– .823
Excess (Deficiency)	.271	– .035	– .130
Total Reserves Held	40.327	– .338	– .958
Net Borrowed Reserves	.089	+ .039	– 1.230
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.851	– .628	+ .735

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	451.4	– 1.1‡	+ 5.1‡
M2 (June '82)	1,907.6	+ 9.1	+ 9.6
M3 (June '82)	2,295.2	+ 10.6	+ 10.2
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 8/6/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.30%	10.35%	11.00%
* Federal Agencies	11.95	12.75	13.59
* Project Notes—Taxfree (46% Taxable Equivalent)	11.94	12.50	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.55	12.40	13.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.63%	Sep.	10.75%
15- 29 days	10.38	Oct.	11.00
30- 59 days	10.63	Nov.	11.15
60- 89 days	10.63	Dec.	11.35
90-179 days	10.63	Jan.	11.60
180-239 days	10.75	Feb.	11.60
240-270 days	11.63		

‡Industrial Paper—Prime			
30- 89 days	10.63%	†Federal Funds	
90-120 days	10.75	Effective Rate	10.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,047	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.7	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jun '82	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons)†	Jul '82n	99,732	99,764	100,864
Unemployment as % of Civilian Labor Force†	Jul '82n	9.8%	9.5%	7.2%
Personal Income*	Jun '82	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100)†	Jun '82	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jun '82	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	Jun '82	–$ 3.44	–$ 3.29	–$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82	911	1,075	1,046
New Construction Expenditures*	Jun '82n	$ 230.7	$ 227.7	$ 237.5
Total Business Inventories†	May '82	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

again. However, at that time they should be offset—at least partially—by more gains in productivity. Traditionally, productivity rises quickly at the early stages of recovery as companies step up output without boosting labor hours worked. Only after assembly lines are restored to full speed do employers increase the average workweek, then expand payrolls. This is clear from July's labor force data which showed a 90,000 drop in factory payrolls and a rise in the unemployment rate to 9.8 per cent.

. . . In Many Industries

One industry which has benefitted from substantial cost cutting, especially reductions in wages and salaries, has been the automobile industry. Earnings of each of the Big Three auto manufacturers were in the black in the second quarter in spite of one of the lowest selling rates in recent memory. This was a significant improvement over the $263 million loss they posted in the first quarter and the $1.2 billion loss they sustained for all of 1981. However, the problems of the industry are far from over. By the end of last quarter, sales had skidded to their lowest levels since the early 1950s and inventories were up once again.

However, more than a slowdown in the rise of wage costs is needed to alleviate the problems of the housing industry. Not that the rise in wage costs has slowed all that much. Although the bargaining

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/21/82)	142,789	+ 2,684	+19,770
New York City (7/21/82)	35,329	+ 483	+ 4,843
Commercial Paper (7/21/82)	182,877	+ 1,592	+30,011

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/21/82)	210,426	– 1,666	+29,412
New York City (7/21/82)	59,467	– 1,312	+ 7,246

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/21/82)	488,049	– 993	+45,998
New York City (7/21/82)	113,491	– 1,810	+ 9,143

Financial Markets

	Friday 8/6/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.72%	+ .57	– 5.30
180-Day Bills†	11.93	+ .46	– 4.65
Longest Bills†	11.51	– .65	– 4.90
Recent Issues:			
13 1/8s 7/31/84	13.24	+ .44	
14 7/8s 6/30/86	13.85	+ .45	
13 3/4s 5/15/92	13.93	+ .47	
14s 11/15/11	13.46	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (8/5/82)	11.87%	– .10	+ .34
Blue List Total ($ Million)	$ 913	– $ 5	+ $109
30-Day Visible Supply ($ Million)	$2,290	– $225	+ $ 73
Total	$3,203	– $230	+ $182
Corporates:			
Moody's Aa Composite (8/5/82)	14.89%	– .17	– .43
30-Day Visible Supply ($ Million) ‡	$1,400	+ $140	NA
Stocks:			
Dow-Jones Averages:			
Industrials	784.34	– 24.26	– 158.20
Transportation	297.06	– 11.69	– 108.49
Utilities	104.51	+ 1.29	– 5.49
65 Stocks	302.55	– 8.01	– 66.95
Standard and Poor's 500 Stocks	103.71	– 3.38	– 28.04
N.Y.S.E. Composite Index	59.69	– 1.82	– 16.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,254	+ 7,710	+ 9,430

* 46% Taxable equivalent 21.98%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

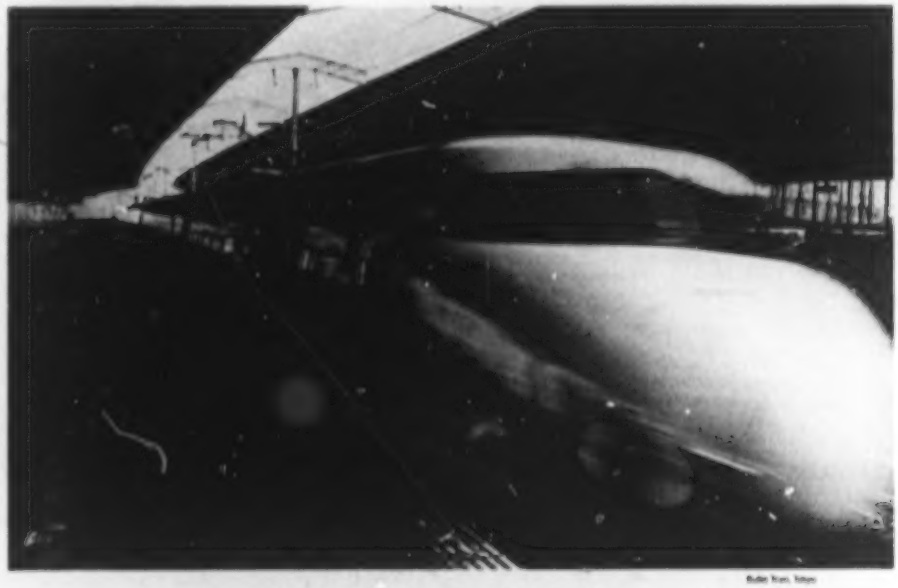
EURODOLLAR DEPOSIT RATES (bid)	Friday 8/6/82	Week Ago
Overnight	10.63%	11.38%
1 month	11.63	12.19
3 month	12.63	13.06
6 month	13.56	13.94
1 year	13.81	14.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.15%	14.40%
Long Term (7 to 15 yrs.)	14.35	14.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/6/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02092	47.79
Canada	.7992	1.2512
Denmark	.1152	8.6833
France	.1435	6.9700
Germany	.3994	2.5040
Italy	.0007145	1399.60
Japan	.003833	260.90
Mexico	.02035	49.15
Netherlands	.3625	2.7585
Switzerland	.4681	2.1365
U.K.	1.7095	.5853

settlements in the construction industry reached during the first six months of the year were the smallest for the industry since 1978, construction workers received the biggest wage increases of any of the major sectors monitored by the Bureau of Labor Statistics. This occurred despite an almost 20 per cent unemployment rate in the industry. The average wage increase for the first year of contract was 6.6 per cent—more than twice the average for all workers.

The combination of high interest rates and sharply rising prices of new homes is largely responsible for the decline in sales of new and existing homes. Mortgage interest rates continue to hover around 17 per cent, and the median price of a new single-family home reached $72,600 in June, from $68,800 a year ago. As a result of the skyrocketing monthly mortgage payments, the characteristics of the typical would-be homebuyers have changed significantly. The median income of homebuyers rose from $28,110 in 1979 to $39,196 in 1981 (latest available). More first-time buyers were forced to wait for better market conditions while it was mainly previous homeowners who were able to buy new or existing homes. What is more, while first-time buyers made up 36 per cent of the market in 1977, in 1981 they accounted for only 13.5 per cent. The median age of homebuyers also reflected difficult housing market conditions, rising from 27 years in 1979 to 28 years in 1981.



The marketplace demands speed, worldwide.

Manufacturers Hanover moves.

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Our global network of more than 100 facilities working with some 4,700 domestic and overseas correspondent banks, provides a key link to 130 countries around the world.

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Credit. Operations. And the integration of both to create a total financial relationship of the highest standards—anywhere in the world. The marketplace demands it. Consider the source.

MANUFACTURERS HANOVER

The financial source.Worldwide.